

## Message Text

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ORIGIN TRSE-00

INFO OCT-01 IO-13 ISO-00 FEA-01 AGRE-00 CEA-01 CIAE-00  
COME-00 DODE-00 EB-07 FRB-03 H-01 INR-07 INT-05  
L-03 LAB-04 NSAE-00 NSC-05 PA-01 EPG-02 AID-05  
SS-15 STR-04 ITC-01 USIA-06 PRS-01 SP-02 OMB-01  
AF-10 ARA-06 EA-07 EUR-12 NEA-10 OIC-02 /136 R

DRAFTED BY TREASURY: E.BARBER:CJF  
APPROVED BY STR:W.B.KELLY, JR.  
AGRICULTURE: J.BESHOAR  
COMMERCE: C.JOHNSON  
LABOR: D.WANAMAKER  
STATE: D.DUNFORD  
TREASURY: W.BARREDA  
STR: B.STEINBOCK  
STR: D.WHITNACK

-----210437Z 118998 /12

P R 202336Z MAY 77  
FM SECSTATE WASHDC  
TO USMISSION GENEVA PRIORITY  
INFO USDEL MTN GENEVA

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E.O. 11652: N/A

TAGS: ETRD, GATT, FI

SUBJECT: GATT BALANCE OF PAYMENTS CONSULTATIONS WITH  
FINLAND, MAY 24, L977

1. THE TRADE POLICY STAFF COMMITTEE TODAY APPROVED THE  
FOLLOWING POSITION PAPER (TPSC 77-43) FOR THE SUBJECT  
MEETING.

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2. PROBLEM. THE GATT BALANCE-OF-PAYMENTS COMMITTEE WILL  
MEET IN GENEVA, MAY 24, TO CONSIDER FINLAND'S TRADE SYSTEM  
IN THE LIGHT OF ITS BALANCE-OF-PAYMENTS SITUATION AND  
PROSPECTS. GUIDANCE IS NEEDED FOR THE U.S. DELEGATION.

3. RECOMMENDATIONS.

(A) THE U.S. REPRESENTATIVE SHOULD MAKE THE POINTS SET  
FORTH BELOW AND POSE THE QUESTIONS IN THE ANNEX TO THIS  
PAPER, AS HE DEEMS APPROPRIATE.

(1) THE UNITED STATES CONGRATULATES FINLAND ON THE IMPROVEMENT IN ITS BALANCE-OF-PAYMENTS POSITION IN THE PAST YEAR. WE WERE GRATIFIED TO NOTE THAT THE FINNISH GOVERNMENT WAS ABLE TO TERMINATE ITS IMPORT DEPOSIT SCHEME ON DECEMBER 31, 1976, AS PROMISED.

(2) WE RECOGNIZE THAT FINLAND STILL HAS A DIFFICULT BALANCE-OF-PAYMENTS PROBLEM WHICH IT IS STRIVING TO BRING UNDER CONTROL. IN THE CIRCUMSTANCES, MOST OF THE RESTRICTIONS MAINTAINED BY FINLAND DO NOT APPEAR EXCESSIVE, ALTHOUGH WE WILL BE POSING SOME QUESTIONS DESIGNED TO ELICIT CLARIFICATION OF SPECIFIC POINTS.

(3) WE HOPE THAT CONTINUED IMPROVEMENT IN FINLAND'S BALANCE-OF-PAYMENTS WILL SOON MAKE POSSIBLE THE REMOVAL OF THE RESIDUAL RESTRICTIONS.

(B) WHILE URGING RELAXATION OF THE FINNISH RESTRICTIONS WHEN POSSIBLE, THE U.S. REPRESENTATIVE MAY SUPPORT A COMMITTEE CONCLUSION THAT STATES THAT THEY ARE JUSTIFIED UNDER PRESENT CIRCUMSTANCES.

#### 4. BACKGROUND.

(A) BALANCE OF PAYMENTS POSITION AND PROSPECTS.

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FINLAND'S ECONOMIC CYCLE RECENTLY HAS LAGGED THAT OF OTHER WESTERN INDUSTRIAL COUNTRIES BY OVER A YEAR. THE GOVERNMENT'S FISCAL POLICIES HELPED MAINTAIN DOMESTIC DEMAND IN 1974 AND 1975 DESPITE A SHARP FALL IN DEMAND FOR EXPORTS. BUT THESE POLICIES ALSO HELPED TO KEEP INFLATION AND THE CURRENT ACCOUNT DEFICIT AT HIGH LEVELS. AS A RESULT THE GOVERNMENT OF FINLAND TOOK A MORE RESTRICTIVE APPROACH FROM MID-1975 ONWARD, LEADING TO A 3 PERCENT DECLINE IN FINAL DOMESTIC DEMAND FROM 1975 TO 1976 AND A 4 PERCENT DROP IN IMPORT VOLUME. THE DOMESTIC ECONOMY REMAINED SLUGGISH IN 1976, WITH GDP RISING ONLY 0.5 PERCENT.

THE GOVERNMENT BUDGET SWUNG FROM A 1974 SURPLUS INTO A 1975 DEFICIT EQUIVALENT TO 2.7 PERCENT OF GNP. THIS IMPROVED TO A DEFICIT OF 0.3 PERCENT OF GNP IN 1976. FOR 1977, CERTAIN CUSTOMS DUTIES HAVE BEEN ELIMINATED, TAXES ON MOTOR VEHICLES AND GASOLINE RAISED, AND OTHER TAXES CHANGED.

THE GOVERNMENT TIGHTENED MONETARY POLICY IN 1975, BUT THIS STEP WAS OFFSET BY THE MOUNTING GOVERNMENT DEFICIT AND BY CAPITAL INFLOWS. CONSEQUENTLY, THE AUTHORITIES SHARPLY

REDUCED THE PERMISSIBLE LEVEL OF BANK CREDIT BY CUTTING BACK ON COMMERCIAL BANK CREDIT QUOTAS IN 1975 AND 1976. THE CREDIT RESTRICTIONS WERE SEVERE ENOUGH TO PLACE THE BANKS IN A DIFFICULT DEBT POSITION AND TWO BECAME SUBJECT TO GOVERNMENT SURVEILLANCE AS A RESULT. THE GOVERNMENT ALSO DECIDED NOT TO TERMINATE THE IMPORT DEPOSIT SCHEME IN MARCH 1976, AS HAD BEEN PLANNED, BUT TO PHASE IT OUT OVER THE REST OF THE YEAR AND TO SLOW THE RATE OF REPAYMENT OF DEPOSITS.

THE BANKS NOW ARE ASKED TO DISCRIMINATE AGAINST LENDING TO FINANCE: (1) INVENTORIES OF IMPORTED GOODS; (2) LIMITED OFFICIAL USE  
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INVESTMENT IN THE SERVICES SECTOR; (3) NONPRODUCTIVE MUNICIPAL INVESTMENT; (4) PURCHASES OF CONSUMER DURABLES; AND (5) ACTIVITIES OF ENTERPRISES WHICH BENEFIT IN 1977 FROM LARGE-SCALE REPAYMENT OF IMPORT DEPOSITS.

THE BANK OF FINLAND WILL LIMIT FOREIGN BORROWING IN 1977 TO 4.0 BILLION MARKKAA, AS COMPARED TO GROSS LONG-TERM BORROWING IN 1976 OF 6.1 BILLION MARKKAA. FURTHER COMPLEMENTING THE TIGHT MONETARY REGIME WAS THE BANK OF FINLAND'S DECISION ON MARCH 1, 1977, TO EXTEND THE REQUIREMENT FOR CASH PAYMENT FOR IMPORTS TO COVER ABOUT ONE-THIRD OF TOTAL IMPORTS. THE PURPOSE WAS TO REDUCE SHORT-TERM BORROWING ABROAD. ON APRIL 5, 1977 THE MARKKAA WAS DEVALUED BY 5.7 PERCENT AGAINST A TRADE-WEIGHTED BASKET OF CURRENCIES OF FINLAND'S MAJOR TRADING PARTNERS. THE BANK OF FINLAND ANNOUNCED IN CONJUNCTION WITH THIS DEVALUATION THAT COMMERCIAL BANK CREDIT QUOTAS WOULD BE FURTHER REDUCED AS OF MAY 1 -- BRINGING THE TOTAL REDUCTION SINCE OCTOBER 1975 TO 32 PERCENT.

FINLAND'S 1975 DEFICIT ON CURRENT ACCOUNT WAS AN UNPRECEDENTED 8 PERCENT OF GDP (FMKS 8.8 BILLION, OR 2.2 BILLION DOLLARS). IN 1976 THIS HAD BEEN REDUCED TO SLIGHTLY LESS THAN 4 PERCENT OF GDP (FMKS 4.25 BILLION, OR ONE BILLION DOLLARS). NEARLY THE ENTIRE DEFICIT IS ACCOUNTED FOR BY THE TRADE DEFICIT. THE LATTER WAS HALVED IN 1976 DUE TO:

(1) A RECOVERY IN EXPORT MARKETS (PARTICULARLY FOR FORESTRY PRODUCTS, AGRICULTURAL AND OTHER PRIMARY PRODUCTS, AND CHEMICALS) AND

(2) THE REDUCTION IN DOMESTIC DEMAND, LEADING TO A SLIGHTLY LOWER VOLUME OF IMPORTS (ALBEIT AT SLIGHTLY HIGHER PRICES). THE DOMINANT FACT OF FINNISH EXPORT PERFORMANCE REMAINS SHARP CYCLICAL FLUCTUATIONS IN VOLUME  
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FROM YEAR TO YEAR.

THE PROGRESS IN IMPROVING FINLAND'S CURRENT ACCOUNT POSITION IN 1976 IS EXPECTED TO CONTINUE IN 1977. THE GOVERNMENT'S GOAL IS TO REDUCE THE UNDERLYING CURRENT ACCOUNT DEFICIT TO NOT MORE THAN 2 PERCENT OF GDP BY 1980.

IT IS NOT EXPECTED THAT THERE WILL BE ANY SUBSTANTIAL IMPROVEMENT IN RESERVES IN 1977.

(B) SYSTEM AND METHODS OF RESTRICTION.

ON DECEMBER 31, 1976, FINLAND TERMINATED ITS IMPORT DEPOSIT SCHEME, PARTLY DUE TO THE IMPROVEMENT IN THE CURRENT ACCOUNT DEFICIT. THE SCHEME HAD BEEN IMPLEMENTED AS OF MARCH 24, 1975 TO PREVENT A FURTHER FALL IN THE LEVEL OF RESERVES. UNDER IT, IMPORTERS WERE REQUIRED TO DEPOSIT UP TO 30 PERCENT OF THE VALUE OF THE GOODS TO BE IMPORTED; THE DEPOSIT WAS RETURNED WITHOUT INTEREST AFTER SIX MONTHS. THE IMF STAFF CONCLUDED THAT THE DIRECT IMPACT OF THE SCHEME ON IMPORTS IS DIFFICULT TO EVALUATE BUT THAT IT MAY HAVE BEEN PARTLY RESPONSIBLE FOR THE DECLINE IN IMPORTS OF FINISHED GOODS, ESPECIALLY CONSUMER PRODUCTS.

MOST GOODS MAY BE FREELY IMPORTED INTO FINLAND FROM ANY SOURCE. HOWEVER, THE LAW OF FEBRUARY 15, 1974 SAFEGUARDING FINLAND'S EXTERNAL TRADE AND ECONOMIC GROWTH PROVIDED THAT A NUMBER OF COMMODITIES (MAINLY FOODSTUFFS PRODUCED FROM ANIMAL AND VEGETABLE SUBSTANCES, AND DERIVATIVES OF MINERAL OIL AND COAL) ARE LIABLE TO LICENSING ON AN AD HOC BASIS AT THE DISCRETION OF THE LICENSING BOARD. ALSO, ON AUGUST 29, 1973 IMPORTS OF A NUMBER OF CONSUMER PRODUCTS BECAME SUBJECT TO A "TEMPORARY" LICENSING SYSTEM. AS OF MAY 1974 THE SYSTEM CEASED TO BE APPLIED RESTRICTIVELY BUT THE MEASURE REMAINS FOR "SURVEILLANCE PURPOSES". FINALLY, THE IMF NOTES THAT CERTAIN

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OTHER GOODS ARE SUBJECT TO GLOBAL QUOTAS BUT THAT THESE ACCOUNTED FOR LESS THAN ONE PERCENT OF TOTAL 1976 IMPORTS.

SINCE 1973, THE BANK OF FINLAND HAS REQUIRED THAT FULL PAYMENT FOR SPECIFIED COMMODITIES BE MADE THROUGH AN AUTHORIZED BANK OR THAT AN AMOUNT EQUIVALENT TO THE PURCHASE PRICE BE DEPOSITED WITH THE BANK OF FINLAND BEFORE THE GOODS COULD BE CLEARED THROUGH CUSTOMS. THIS REQUIREMENT AFFECTED PRIMARILY CONSUMER GOODS, INCLUDING

AUTOS AND OTHER DURABLES, BUT ON MARCH 1, 1977 THE LIST WAS EXTENDED TO INCLUDE RAW MATERIALS AND PRODUCTION EQUIPMENT. THE TRADE COVERAGE THUS ROSE FROM ABOUT 18 PERCENT TO ABOUT 33 PERCENT OF IMPORTS BY VALUE. THE REQUIREMENT IS DESIGNED TO SUPPORT THE STRINGENT MONETARY POLICY AIMED AT RESTRICTING THE GROWTH OF DOMESTIC DEMAND.

IN ACCORDANCE WITH THE BANK OF FINLAND'S NEW CREDIT POLICY GUIDELINES TO THE COMMERCIAL BANKS FOR 1977 AND 1978, STRICT CONTROL OVER FOREIGN BORROWING IS TO CONTINUE. PERMISSION WILL BE GRANTED FOR NO MORE THAN FMKS 4 BILLION OF CAPITAL IMPORTS IN 1977. WE UNDERSTAND THAT MOST OF THIS AMOUNT ALREADY HAS BEEN ALLOCATED FOR EXISTING PROJECTS, LEAVING LITTLE FOR ANY NEW CREDITS.

5. ANNEX.

(A) WHAT ARE THE FINNISH GOVERNMENT'S CURRENT PROJECTIONS FOR ITS BALANCE-OF-PAYMENTS, EXPORT LEVELS, AND TOTAL IMPORTS, IN 1977? TO WHAT EXTENT IS TERMINATION OF THE IMPORT DEPOSIT REQUIREMENT EXPECTED TO STIMULATE IMPORT DEMAND?

(B) COULD THE GOVERNMENT OF FINLAND PROVIDE A FURTHER EXPLANATION OF THE 1977 LIMIT OF FMKS 4 BILLION ON FOREIGN BORROWING? DOES IT APPLY TO GROSS LONG-TERM BORROWING, TO SHORT-TERM BORROWING, OR TO ALL CREDITS? LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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HOW MUCH OF THIS QUOTA HAS BEEN UTILIZED ALREADY?

(C) DOES THE GOVERNMENT OF FINLAND ANTICIPATE THE NEED TO IMPOSE ANY NEW IMPORT-RESTRICTING MEASURES IN 1977?

(D) WHAT IS THE PRACTICAL EFFECT OF THE REQUIREMENT THAT BANKS DISCRIMINATE AGAINST LENDING TO FINANCE INVENTORIES OF IMPORTED GOODS? DOES IT APPLY ONLY TO BUILDUPS IN STOCKS, OR TO ALL IMPORTS? WILL IMPORTERS BE OBLIGED TO DRAW DOWN INVENTORIES? HOW WILL AN ACCEPTABLE LEVEL OF INVENTORIES BE DETERMINED?

(E) DOES THIS TIGHT BANK LENDING POLICY APPLY TO DOMESTICALLY PRODUCED CONSUMER DURABLES, AS WELL AS TO IMPORTS OF CONSUMER DURABLES?

(F) DOES THE GOVERNMENT MAINTAIN GLOBAL QUOTAS ON SOME IMPORTS FOR BALANCE-OF-PAYMENTS REASONS? (THE IMF STAFF NOTES THAT CERTAIN "OTHER GOODS" AMOUNTING TO LESS THAN ONE PERCENT OF IMPORTS ARE SUBJECT TO QUOTAS.) DOES FINLAND FORESEE A CONTINUED NEED FOR SURVEILLANCE LICENSING IN 1977? IF SO, WHY?

(G) DO THE FINNISH AUTHORITIES HAVE ANY ESTIMATE OF THE DEGREE TO WHICH THE CASH PAYMENT REQUIREMENT MAY HAVE REDUCED IMPORTS IN 1976? ARE THERE ESTIMATES OF THE DEGREE TO WHICH IT MAY REDUCE IMPORTS IN 1977? ARE THERE ANY PLANS TO EXTEND ITS COVERAGE? CHRISTOPHER

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DRAFTED BY:EUR/NE:REWOODS:LP

APPROVED BY: EUR/NE:REWOODS

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R 262030Z MAY 77

FM SECSTATE WASHDC

TO AMEMBASSY HELSINKI

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FOLLOWING REPEAT STATE 117113 ACTION GENEVA INFO MTN GENEVA  
DATED MAY 20

QTE: LIMITED OFFICIAL USE STATE 117113

E.O. 11652: N/A

TAGS: ETRD, GATT, FI

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## Message Attributes

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**Capture Date:** 22-Sep-1999 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PAPERS, DIPLOMATIC DISCUSSIONS, FOREIGN POLICY POSITION, BALANCE OF PAYMENTS  
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**Copy:** SINGLE  
**Sent Date:** 20-May-1977 12:00:00 am  
**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977STATE117113  
**Document Source:** ADS  
**Document Unique ID:** 00  
**Drafter:** TREASURY: E.BARBER:CJF  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** n/a  
**Expiration:**  
**Film Number:** D770181-0477  
**Format:** TEL  
**From:** STATE  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1977/newtext/t197705110/baaaewae.tel  
**Line Count:** 553  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, TEXT ON MICROFILM  
**Message ID:** fb6ce888-c288-dd11-92da-001cc4696bcc  
**Office:** ORIGIN TRSE  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
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**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 09-Mar-2005 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2346361  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** GATT BALANCE OF PAYMENTS CONSULTATIONS WITH FINLAND, MAY 24, L977  
**TAGS:** ETRD, FI, US, GATT  
**To:** GENEVA INFO MTN GENEVA  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/fb6ce888-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009